



# MAJOR ELECTRICITY USERS' GROUP

21<sup>st</sup> July 2015

Dr John Rampton  
Electricity Authority  
By email to [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear John

## Consultation Paper—Hedge Market Development

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) consultation paper<sup>1</sup> "Hedge Market Development: Enhancing trading of hedge products" dated 1<sup>st</sup> May and published 9<sup>th</sup> June 2015.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. Comments on the questions in the consultation paper follow:

Question	MEUG comment
1. Do you consider more authoritative market making arrangements to be necessary?	<p>Authoritative market making arrangements should only be considered as a last resort.</p> <p>Claims and counter-claims of free-riding or not, threats to withdraw from being voluntary market makers and proposals for inducements to continue market making by some of the large suppliers are not trivial nor sufficiently clear cut to determine if there are real policy issues at play or promotion of a self interest by some suppliers.</p> <p>MEUG suggest the Electricity Authority investigate ways to estimate the materiality of free-riding in conjunction with understanding the performance of the existing market makers (the topic for question 2 below).</p>

---

<sup>1</sup> Document URL <http://www.ea.govt.nz/dmsdocument/19441> at <http://www.ea.govt.nz/development/work-programme/wholesale/hedge-market-development/consultations/#c15362>

Question	MEUG comment
2. What are your views on the need for improved transparency around market making performance?	<p>Presumably ASX has an incentive to ensure the transaction fee rebates<sup>2</sup> provided to market makers add value to the market and performance obligations are met. Once the ASX improve their performance monitoring<sup>3</sup> then a pragmatic approach may be for the Electricity Authority to agree with ASX and the voluntary market makers metrics on performance.</p> <p>These may be in an aggregated and anonymous form; nevertheless it may be preferable to start early with at least some measures of performance and as needed consider other metrics and options to gather those.</p> <p>ASX and the market makers will have an interest in reaching agreement with the Electricity Authority on providing such information if at the same time the Authority is actively investigating the materiality of free-riding as suggested in response to Q1 above.</p>
3. What market making metrics would be of most value to participants?	<p>All market making agreement<sup>4</sup> metrics are important, ie minimum volumes, bid-offer spreads and re-fresh rate. How often the "allowance to pull back from their commitments for short periods if their trading portfolio is under stress" is exercised is also an interesting metric<sup>5</sup>.</p>
4. Do you agree the Authority should investigate improvements to the market making arrangements for the baseload futures products?	<p>MEUG agrees investigations, that are in effect discussion to find a common ground for parties to mutually improve market making for baseload futures products, should continue.</p>
5. Specifically, do you agree that it should investigate tighter bid-offer spreads, greater volumes, and an extension of the monthly futures product by three to nine months?	<p>Yes those appear to be both highest value and most likely to be achievable in a voluntary multi-party agreement<sup>6</sup>.</p>
6. Do you agree that introducing a cap product would support the Authority's statutory objective?	<p>Yes<sup>7</sup>. We would support market participants voluntarily developing an exchange traded cap product. The Electricity Authority may play an important role in facilitating that process.</p>

<sup>2</sup> Ibid, paragraph 3.1.5.

<sup>3</sup> Ibid, paragraph 3.3.21

<sup>4</sup> Ibid, paragraph 3.1.3

<sup>5</sup> Ibid, paragraph 3.1.3 (h)

<sup>6</sup> See MEUG submission to the Wholesale Advisory Group, 19<sup>th</sup> December 2014, response to Q5, supporting consideration of a smaller bid-offer spread

<sup>7</sup> Ibid, response to Q10 noted support for considering exchange traded cap or option products

Question	MEUG comment
7. What price making arrangements do you consider to be appropriate and/or necessary to support cap products?	This should be a matter to be decided by buyers and sellers.
8. Do you agree that the Authority should not further investigate market making arrangements for the peak futures product?	Agree.
9. Do you agree that liquidity in the option product is best supported by improving liquidity in baseload futures products?	Agree.
10. Are there other products or price making arrangements that the Authority should investigate further?	MEUG has no other hedge products to suggest as having higher priority to investigate over and above those proposed in the consultation paper.
11. What is your view on these approaches, and the extent to which they could be employed by the Authority, either alone, or as part of a mixed strategy?	Voluntary, incentivised and mandatory options should all be considered in investigations. MEUG's strong preference is for voluntary approaches. MEUG would not completely discount targeted (not blunt) mandatory approaches with well defined triggers to exit back to a market mechanisms if that maximised expected long-term benefits to consumers.

4. MEUG looks forward to further investigation and analysis of options<sup>8</sup> "with a view to developing a consultation proposal in 2015/16."

Yours sincerely



Ralph Matthes  
Executive Director

---

<sup>8</sup> Consultation paper, paragraph 1.1.4